MOOSE LAKE LOGGERS LTD.

ANNUAL REPORT

1985-86

MOOSE LAKE LOGGERS LTD.

BOARD OF DIRECTORS

Clement Jones - Chairperson
Manager, Ducks Unlimited

F. G. Marvin
President, Spruce Products Ltd.

H. Holmgren
President, E. Holmgren & Sons

R. Grey
Foreman, Moose Lake Loggers Ltd.

H. Boyle
Regional Manager, Department of Natural Resources

L. Easter
Band Member, Moose Lake Indian Band

J. Martin
Welder, Moose Lake Community

J. Mercredi
Logger, Moose Lake Loggers Ltd.

G. P. Trithart
Director, Corporate Projects
Department of Northern Affairs

OFFICERS

Clement Jones
President

R. J. Kivisto
General Manager

G. P. Trithart
Secretary/Treasurer

HEAD OFFICE: Moose Lake, Manitoba

TABLE OF CONTENTS

		PAGE
I.	INTRODUCTION	1
II.	MAJOR DEVELOPMENTS	1
III.	REVIEW OF RESULTS	2
	A. Financial Results	2
	B. Production	4
	C. Other Benefits	4
	D. Training	5

APPENDIX - Audited Financial Statements For The Year Ended March 31, 1986

ANNUAL REPORT - MOOSE LAKE LOGGERS LTD.

APRIL 1, 1985 - MARCH 31, 1986

I. INTRODUCTION

Moose Lake Loggers Ltd. is a Crown Corporation formed in 1971 under the authority of the Manitoba Natural Resources Development Act for the purpose of establishing an economically viable logging operation providing employment for residents of Moose Lake and surrounding areas. The Corporation also has a mandate to train local residents to fill the jobs created, with the ultimate goal being management by local residents.

The Company uses skidders to harvest sawlogs and pulpwood for sale to Manfor Ltd. in The Pas. Most of the Company's employees are native people from Moose Lake, Manitoba, a community located near valuable forestry resources but with a traditionally serious lack of employment opportunities.

II. MAJOR DEVELOPMENTS

Following six years of continuous losses to March 31, 1977 (the accumulated total of which was $551,000), the Company has experienced profits in five of the last nine years of operation as follows:

Year Ending March 31st.	Profit (Loss)
1986	$ (11,617)
1985	37,952
1984	(51,042)
1983	1,029
1982	(98,286)
1981	127,544
1980	(18,306)
1979	54,420
1978	52,994

...2/

Despite the many operational problems which have been encountered over the past nine years and a poor world market in recent times, the Company is encouraged with its performance which no longer relies on Government subsidy.

Credit for the improved performance must be attributed largely to the General Manager, Mr. Reino Kivisto, and his staff who have worked tirelessly with the Company's Board of Directors and the Community of Moose Lake. The people of Moose Lake have also genuinely participated in the Company's success through their representation on the Board of Directors, the support provided by their elected leaders, and most importantly, through the hard work of the Company's employees from Moose Lake.

Despite depressed world markets in the pulp, paper and lumber industries in recent times, the Company was, in 1985-86, able to produce and market 79% of its normal production capacity of 72,000 cords. This was the fifth consecutive year in which the Company has produced below capacity.

Production now originates from twenty-seven owner/operated machines, of which twenty-one are owned by Indian entrepreneurs from the area. Owner/Operators (an operational objective of the Company) are individuals who own and operate their own skidder utilizing a two or three man crew. Once a local resident has developed the necessary skills and demonstrated a willingness to be a steady employee, the Company encourages him/her to become an owner/operator.

III. REVIEW OF RESULTS

A. Financial Results

Appended to this report are the Provincial Auditor's audited financial statements for the year ended March 31, 1986. These statements report a loss of $11,617 for 1985-86 compared to a profit of $37,952 for the previous year.

Major items of change in operating costs include a $23,139 increase in repairs and maintenance costs which were offset by decreases of $23,889 and $12,865 respectively in depreciation and interest costs. Repair and

...3/

maintenance cost increases were due to major repairs to two power plants and the grader plus extensive painting of buildings.

A decrease of 6,911 cords in the volume of wood sold is the predominant factor in the Company's deteriorated financial results. This is reflected in higher per cord costs, as indicated below in the table of major expenditure categories.

To date, worker's compensation coverage for Company employees has been provided by the Province of Manitoba at no cost to the Company. Effective October, 1985, the Company is required to pay $60,000 per annum or actual costs, whichever is the lessor. For the first six months of the agreement the Company paid $30,000 which is equivalent to $0.53 per cord for the year under review.

The following table illustrates per cord costs for major expenditure categories over the past three years:

Cost Category	1985-86	1984-85	1983-84
Wages & Benefits	$ 33.01	$ 30.38	$ 32.08
Equipment	11.33	10.85	10.48
Fuel	3.32	3.28	3.10
Total Direct Logging	39.28	37.31	37.55
Total Camp Operations	11.80	11.32	11.92
Total Administrative	4.41	4.00	4.71

The following table provides key results of the Company for the last ten fiscal years:

Year Ending March 31st	Production Revenue	Wages & Fringe Benefits	Owner/Operator Rentals	Employment
1986	$2,992,638	$1,869,171	$641,692	74
1985	3,226,525	1,930,131	689,111	74
1984	2,421,091	1,578,101	515,286	74
1983	2,782,529	1,658,611	549,773	68
1982	2,587,539	1,662,882	563,575	67
1981	2,809,289	1,689,121	587,374	68
1980	2,077,031	1,343,031	396,453	59
1979	1,952,382	1,262,000	319,779	57
1978	1,943,545	1,285,000	214,663	58
1977	881,830	745,000	68,052	42

...4/

B. Production

Production in fiscal year 1985-86 was 56,634 cords, a decrease of 6,911 cords from the previous year.

A comparison of annual production, in cords, for the last ten years is provided in the following table:

Year Ending March 31st	Company Skidders	Owner/ Operators	Total
1986	-	56,634	56,634
1985	-	63,545	63,545
1984	-	49,200	49,200
1983	-	57,011	57,011
1982	-	65,532	65,532
1981	-	81,564	81,564
1980	-	68,034	68,034
1979	14,989	51,167	66,606
1978	21,450	39,540	60,990
1977	24,960	6,770	31,730

Manfor Ltd. is the sole outlet for the Company's production. Manfor's depressed market for paper and lumber has for the fifth consecutive year, resulted in contract cutbacks from the Company's normal production capacity of 72,000 cords.

This is the seventh consecutive year in which 100% of the Company's pulpwood production has come from owner/operators. The Company's objective of converting from Company owned machines to skidder owner/operators has resulted in increased production. Some 78% (21 of 27 skidders) of these machines are now owned and operated by local native residents of the area.

While absenteeism continues to be troublesome, contract cutbacks have been the major problem over the past five years.

C. Other Benefits

Employment remains constant at 74 employees. Approximately 80% of those employed are Indian residents of Moose Lake, Cormorant, Cranberry Portage and The Pas. Excluding The Pas, there is little or no alternate employment in these communities, except for traditional commercial fishing and trapping which is seasonal at best. Included in the 74 employees are

...5/

59 piece workers, 7 hourly and 8 salaried staff. It is interesting to note that the average annual salary in 1985-86 was $25,259 (compared to $26,083 in 1984-85 and $21,326 in 1983-84).

The Company maintains a store facility which provides a variety of clothing, confectionary items and saw parts for employees. Parts and service for owner/operators are also provided although some owner/operators have developed to the stage where they operate quite independently from the Company.

D. Training

The Company continues to provide on-the-job training. This training has produced the following favourable results in office and support staff:

	Total Staff		Native Staff	
	1985/86	1984/85	1985/86	1984/85
Office	3	3	2**	3
Foremen	3	3*	3	3*
Kitchen and Dorms	7	7	7	7

* One part-time

** Temporary, subject to finding a suitable local resident replacement.

Manitoba

MOOSE LAKE LOGGERS LTD.

REPORT OF THE PROVINCIAL AUDITOR'S OFFICE

We have examined the balance sheet of Moose Lake Loggers Ltd. as at March 31, 1986 and the statements of retained earnings, revenues and expenditures, and changes in financial position, and the schedule of operating expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at March 31, 1986 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

F. H. Jackson, C.A.,
Provincial Auditor.

September 29, 1986,
Winnipeg, Manitoba.

Exhibit A

MOOSE LAKE LOGGERS LTD.

Balance Sheet
as at March 31, 1986
(with 1985 figures for comparison)

ASSETS

	1986	1985
Current assets:		
Short term deposits	$ 50,000	$ 51,025
Accounts receivable:		
Trade	339,389	87,351
Employees	11,350	31,951
Government of the Province of Manitoba	-	8,478
	350,739	127,780
Loans receivable from sub-contractors re purchase of equipment - unsecured	74,736	76,577
Inventories, at cost	58,659	86,598
Prepaid expenses	2,132	2,936
Total current assets	536,266	344,916
Fixed assets, at cost: (Note 4)		
Buildings and trailers	509,829	509,829
Less accumulated depreciation	359,988	310,968
	149,841	198,861
Equipment	244,508	250,156
Less accumulated depreciation	197,441	172,377
	47,067	77,779
Other assets, at cost: (Note 4)		
Campsite improvements	90,579	116,817
Less accumulated amortization	37,107	82,743
	53,472	34,074
Main road construction	235,321	235,321
Less grants received	156,000	156,000
	79,321	79,321
Less accumulated amortization	71,454	65,790
	7,867	13,531
Total fixed and other assets	258,247	324,245
	$ 794,513	$ 669,161

Approved by the Board:

Director _____

Director _____

LIABILITIES AND SHAREHOLDERS' EQUITY

	1986	1985
Current liabilities:		
Excess of outstanding cheques over bank balances	$ 47,082	$ (2,289)
Bank demand loan (Note 5)	110,000	-
Accounts payable and accrued liabilities:		
Trade	64,114	$ 44,404
Government of the Province of Manitoba	13,135	2,685
Wage deductions	65,964	38,319
Employees	43,438	55,295
	186,651	140,703
Total current liabilities	343,733	138,414
Conditional sales agreement	-	88,350
Total liabilities	343,733	226,764
Shareholders' equity:		
Capital stock (Note 2):		
Authorized - 35,000 common shares for a maximum consideration of $350,000		
Issued and fully paid - 30,009 common shares	300,090	300,090
Contributed surplus:		
Grant from the Government of Canada towards capital expenditures	5,720	5,720
Retained earnings, Exhibit B	124,970	136,587
Total shareholders' equity	430,780	442,397
	$ 794,513	$ 669,161

MOOSE LAKE LOGGERS LTD.

Statement of Retained Earnings
for the year ended March 31, 1986
(with 1985 figures for comparison)

	1986	1985
Balance, beginning of year	$ 136,587	$ 98,635
Less: Revenues over (under) expenditures, Exhibit C	(11,617)	37,952
Balance, end of year, Exhibit A	$ 124,970	$ 136,587

MOOSE LAKE LOGGERS LTD.

Statement of Revenues and Expenditures
for the year ended March 31, 1986
(with 1985 figures for comparison)

	1986	1985
Revenues:		
Log cutting contract - Manfor Ltd.	$ 2,992,638	$ 3,226,525
Commissary sales	309,355	406,244
Board charges	55,216	82,950
Trainee reimbursement	23,497	2,366
Road maintenance	16,191	19,596
Interest income	11,802	9,286
Accounting service fees	2,900	2,225
Equipment rental	-	498
Reforestation Program	-	275
Miscellaneous	4,872	1,662
Total revenues	3,416,471	3,751,627
Expenditures, Exhibit E:		
Log cutting contracts	2,224,108	2,370,699
Camp operations	954,730	1,088,827
General and administrative	249,250	254,149
Total expenditures, Exhibit E	3,428,088	3,713,675
Revenues over (under) expenditures, Exhibit B	$ (11,617)	$ 37,952

Exhibit D

MOOSE LAKE LOGGERS LTD.

Statement of Changes in Financial Position
for the year ended March 31, 1986
(with 1985 figures for comparison)

	1986	1985
Source of funds:		
Operations:		
Revenues over (under) expenditures	$ (11,617)	$ 37,952
Add: Charges not involving an outlay of funds - depreciation and amortization	94,434	136,405
	82,817	174,357
(Gain) loss on sale of fixed assets	-	(4,865)
	82,817	169,492
Proceeds from sale of fixed assets	25,661	30,031
	108,478	199,523
Use of funds:		
Purchase of fixed and other assets	54,097	29,921
Conditional sales agreement	88,350	111,134
	142,447	141,055
Increase (decrease) in working capital	$ (33,969)	$ 58,468

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1986
(with 1985 figures for comparison)

	1986	1985
Log cutting contracts:		
Wages and benefits	$ 1,451,408	$ 1,518,123
Equipment rental	641,692	689,111
Fuel and oil	82,876	105,348
Miscellaneous supplies	29,669	16,978
Repairs and maintenance	18,419	30,678
Insurance	44	1,317
Depreciation	-	9,144
Exhibit C	2,224,108	2,370,699
Camp operations:		
Wages and benefits	270,207	271,878
Provisions	108,296	147,532
Fuel and oil	92,237	89,323
Repairs and maintenance	89,263	64,124
Depreciation	79,185	103,084
Freight	10,219	12,499
Insurance	6,196	6,356
Amortization - main road	5,663	6,353
Interest on conditional sales agreement	4,621	17,486
Equipment rental	2,285	455
	668,172	719,090
Commissary - cost of sales	286,558	369,737
Exhibit C	954,730	1,088,827
Carried forward	$ 3,178,838	$ 3,459,526

MOOSE LAKE LOGGERS LTD.

Schedule of Operating Expenditures
for the year ended March 31, 1986
(with 1985 figures for comparison)

	1986	1985
Brought forward	$ 3,178,838	$ 3,459,526
General and administrative:		
Wages and benefits	147,556	140,130
Health and post secondary education tax levy	24,807	25,848
Professional fees	14,599	17,080
Fuel and oil	12,640	13,370
Depreciation	8,024	17,433
Directors' fees and salaries	7,372	4,600
Directors' travel	7,073	8,023
Communications	4,532	4,549
Insurance	3,547	3,906
Stationery and supplies	3,544	3,015
Travel	3,544	2,026
Repairs and maintenance	3,363	4,377
Bad debt expense	639	-
Miscellaneous	8,010	7,960
Profit sharing plan	-	6,697
(Gain) loss on sale of fixed assets	-	(4,865)
Exhibit C	249,250	254,149
Total expenditures, Exhibit C	$ 3,428,088	$ 3,713,675

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1986

1. Significant Accounting Policies

The following is a summary of the significant accounting policies of the Company.

Fixed assets:
Fixed assets are stated at cost. It is the company's policy to provide for depreciation and amortization of fixed assets on the basis shown in note 4.

Revenue recognition:
Pulpwood sales are recognized on the basis of pulpwood delivered to roadside and scaled in accordance with the terms of the sales contract.

2. Capital Stock

The issued shares are held by the Government of the Province of Manitoba except for nine shares which are held by the appointed directors in trust for Her Majesty the Queen in right of the Province of Manitoba.

3. Services Provided by the Government of the Province of Manitoba

The Government of the Province of Manitoba provides the services of the Secretary-Treasurer and other miscellaneous administrative services at no charge to the Company. The cost of these services is approximately $30,000 (1985 - $29,000). The Government of the Province of Manitoba has previously provided Workers Compensation coverage for Company staff at no charge to the Company. Effective October 1, 1985 the Company agreed to pay the lesser of $5,000 per month or actual costs billed to the Government of the Province of Manitoba. The total cost to the Company was $30,000. Actual costs paid by the Government of the Province of Manitoba to the Workers Compensation Board on the Company's behalf were $265,326 (1985 - $91,245).

4. Fixed Assets and Other Assets

The Company depreciates its fixed assets and amortizes its other assets on the following basis:

	Annual Rate
A) Depreciation	
a) Straight line	
Buildings	10-33 1/3%
Trailers	15-33 1/3%
Equipment	20-33 1/3%
b) Diminishing balance	
Trucks	30%
B) Amortization	
a) Straight line	
Campsite improvements	12 1/2 - 33 1/3%
b) Other	
Main road construction	10 cents per cord sold

MOOSE LAKE LOGGERS LTD.

Notes to Financial Statements
for the year ended March 31, 1986

5. Bank Demand Loan

The bank demand loan is guaranteed by the Government of the Province of Manitoba to a maximum of $500,000 including unpaid interest.

6. Economic Dependence

The Company is economically dependent on the Government of the Province of Manitoba and Manfor Ltd., which is wholly owned by the Government of the Province of Manitoba.